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VIA ELECTRONIC MAIL (rule-comments@sec.gov)

Vanessa Countryman, Secretary
Office of the Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090
E-mail: rule-comments@sec.gov

Re: File No. S7-11-23
Daily Computation of Customer and Broker-Dealer Reserve Requirements
Under the Broker-Dealer Customer Protection Rule

Dear Ms. Countryman:

The Securities Investor Protection Corporation ("SIPC") appreciates the opportunity to comment on the U.S. Securities and Exchange Commission's ("Commission") proposed amendments to Rule 15c3-3 ("Rule") under the Securities Exchange Act of 1934 regarding Daily Computation of Customer and Broker-Dealer Reserve Requirements Under the Broker-Dealer Customer Protection Rule ("Rule Proposal"). SIPC shares the concerns expressed by the Commission regarding weekly reserve computation under the Rule by broker-dealers with large cash liabilities to customers. Those concerns relate to specifically observed and potential mismatches between the aggregate amount of a broker-dealer's customer liabilities, and the amount required to be held by the broker-dealer in a special reserve account in accordance with the Rule. SIPC strongly supports the Commission's proposal to require broker-dealers with large customer credit balances to transition to daily reserve computation. SIPC offers the following comments which SIPC believes would strengthen the Rule Proposal in several important ways.

In its current form, the Rule Proposal uniformly requires broker-dealers that maintain custody of customer securities and cash to transition to daily reserve computation within six months after having defined "average total credits" equal to or greater than \$250 million. Firms vary in sophistication, resources, and operational complexity, and six months may be longer than many large and sophisticated firms need to complete this transition. SIPC believes that grouping firms by size and selecting a conversion period appropriate for firms in each group would accelerate the transition to daily computation. While helping to minimize the risks to customers, this approach also would avoid creating undue burden for affected firms.

The Rule Proposal does not provide an additional compliance period after its adoption and in advance of any firm's transition period. SIPC agrees an initial compliance period is not necessary because the Commission will have provided a reasonable transition period, whether as suggested here or as proposed.

In addressing a broker-dealer that converts from weekly to daily reserve computation, reverts to weekly computation, and then is required to re-convert to daily computation, the Rule Proposal provides a six-month transition period to effectuate the required reconversion. SIPC believes that a firm that formerly performed daily reserve computations is unlikely to require such an extended period to reinstate procedures previously in effect. Accordingly, SIPC suggests that the Commission provide a transition period of not more than thirty days for such broker-dealers.

In the Rule Proposal, the Commission requests comment concerning whether the definition of "average total credits" should be changed from the arithmetic mean of the total credits reported on a firm's twelve most recent FOCUS reports – the current proposal – to the arithmetic mean of total credits during the most recently ended calendar year. SIPC does not support this change. While initial conversion to daily reserve computation may be difficult and time-consuming for some firms, customers would be better served by a rule that prompts affected firms to make that conversion as quickly as practicable. An average-total-credit formula based on the calendar year might result in a lengthy and unnecessary delay, during which customers would remain at heightened risk.

For example, a firm that, under a rolling computation, reaches the \$250 million average credit threshold in February Yr-1 would have to convert to daily reserve computation by August Yr-1. In contrast, under a calendar year rule, the firm would not even be required to perform its next average credit computation until January Yr-2 and then would not be required to convert to daily reserve computation until July Yr-2, 11 months later than would be required under the current proposal.

Finally, the Rule Proposal allows broker-dealers that continue to perform reserve computations on a weekly basis to make voluntary, interim computations between otherwise required computations. The Rule Proposal does not expressly condition authority to make such an interim computation upon approval by the affected firm's designated examining authority, as SIPC understands is current practice. SIPC believes that the Commission should make this current practice an explicit requirement in the final amended Rule. Further, SIPC submits that the Rule Proposal should state expressly that, once a firm elects to perform an interim calculation, then it must continue to perform a reserve computation on the same day every week absent approval from the firm's designated examining authority to cease doing so. Collectively, these changes would help guard against a firm performing interim reserve computations opportunistically to minimize required reserve account deposits.

With the foregoing comments, SIPC strongly supports the Commission's Rule Proposal, shares the concerns that prompted the Commission to propose it, and appreciates the opportunity

to bring these additional suggestions to the Commission's attention. When the Commission adopted the weekly frequency of computation in 1972, it intended to achieve its objectives with a rule "compatible with the accounting systems . . . presently operating or being developed in the securities industry," and hoped for "further development of these systems."¹ The Commission stated it would carefully monitor the operation of the Rule to determine whether there will be a need for the protection of investors to "tighten or relax any of the . . . time frames embodied in the rule."² SIPC commends the Commission for its continued monitoring of this area and its proposal to achieve a daily reserve computation for firms with large customer credit balances that is compatible with current industry systems.

Should you have any questions or require any additional information, please contact me at jwang@sipc.org or Michael Post, General Counsel, at mpost@sipc.org, or either of us at (202) 371-8300.

Very truly yours,



Josephine Wang
President and CEO

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¹ 37 Fed. Reg. 25224, 25225 (Nov. 29, 1972).

² *Id.* at 25226.